

**BOARD OF INVESTMENT TRUSTEES
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION

January 23, 2009
101 Monroe Street, 15th floor
Rockville, Maryland

Board Members Present:	Kelda Simpson, Chair Lodge Gillespie Meg Menke Jeff Sharpe Steve Farber Joe Adler Jennifer Barrett Walt Bader George Willie Sunil Pandya Joe Beach
Staff:	Linda Herman Marc Esen Brad Stelzer Stuart Potter
Others Present:	Mark Brubaker, Wilshire Associates Mike Patalsky, Wilshire Associates Brad Atkins, Franklin Park Karl Hartmann, Franklin Park Amy Moskowitz, Counsel to the Board

CALL TO ORDER

Ms. Simpson called the open session of the Board to order at 8:35 a.m.

DETERMINATION OF MEETING

The Board unanimously approved a motion to move into closed session at 8:35 a.m. for the purpose of discussing the investment of public funds, pursuant to Maryland Code, State Government Article, 10-508(a).

During the closed session the Board unanimously approved the following resolution:

0901-01 Resolved, That subject to contract and other negotiations, the Board approves an investment of up to \$10,000,000 in the Odyssey Investment Partners Fund IV, LP.

Ms. Simpson called the open session of the Board to order at 9:35 a.m.

Approval of the Minutes: Mr. Sharpe moved and Mr. Farber seconded and the Board unanimously approved the minutes of the November 21, 2008 meeting.

Long Duration/Hedge Fund Implementation: Mr. Gillespie introduced the long duration and portable alpha subject noting some of the difficulties the Board has experienced in implementing the strategies. Mr. Brubaker provided additional background on the rationale for including a long duration mandate which better matches the duration and the cash flow of the ERS liabilities. He addressed the delays in the transition related to the inability of the core plus bond managers to liquidate their holdings due to the current market environment. The Board discussed the implementation alternatives presented and Wilshire's recommendation to withdraw from the core bond managers as liquidity conditions permit, hold the JP Morgan Private Placement Mortgage Fund as a separate allocation due to the illiquidity of the portfolio, and to use the proceeds to fund a Barclays Intermediate Government Index with a target allocation of 60% of the total long duration mandate. Wilshire also recommended delaying the funding of the Goldman Sachs mandate until more normal market conditions return. Mr. Potter discussed the implementation of the portable alpha/hedge fund mandate and market issues including redemptions, illiquidity, and suspected fraud surrounding one of the hedge funds in which Strategic had invested. Staff recommended the Board delay implementing the portable alpha/beta replication mandate until additional market research can be performed and issues surrounding the hedge fund industry are resolved. Staff also recommended the Board issue a RFI for another hedge fund manager to replace Strategic based on the results of the due diligence visit. After discussion, Mr. Gillespie moved and Ms. Simpson seconded and the Board unanimously approved the following resolution:

0901-02 *Resolved, That the Board approves amending the implementation of the long duration/hedge fund mandate to:*

- **liquidate the core bond plus managers as market liquidity is restored to their portfolios**
- **hold the JP Morgan Private Placement Mortgage Fund as a separate allocation to be liquidated over the next 12-18 months, as market conditions permit**
- **invest all proceeds from the liquidations in a target long duration allocation of 60% Barclays Intermediate Government Index Fund and 40% STW**
- **delay funding of the Goldman Sachs long duration portfolio**
- **issue an RFI for a hedge fund manager**

Public US Equity Structure: Ms. Herman reviewed changes to the strategic asset allocation which had taken place over the last ten years. Mr. Esen briefed the Board on the attribution analysis of the portfolio which reflected the strong performance compared to the benchmark was primarily due to stock selection by the active managers. He reviewed the results of the optimization process noting the changes in the risk/return profile of the portfolio by lowering the weighting to passive managers and increasing the allocation to the 130/30 managers. Mr. Esen discussed his analysis of Goldman Sachs portfolio and recommended the Board consider replacing the manager. After discussion, Mr. Sharpe moved and Mr. Willie seconded, and the Board unanimously approved the following resolution:

0901-03 *Resolved, That the Board approves the recommended U.S. equity allocation as presented to be implemented during 2009. The Board further approves the issuance of an RFI for a large cap growth manager.*

ERS-Sudan Divestment Legislation: Mr. Esen discussed the requirements of the County's Sudan Divestment Legislation and the latest report received from KLD identifying companies held within the ERS portfolio who meet the criteria of doing business with the Government of Sudan. KLD's research resulted in one company, ABB Ltd., being identified as doing business with the Government of Sudan and not meeting any of the exemptions found within the County Code. Mr. Esen informed the Board that, as required by the County Code, the company would be placed on the restricted list as of February 14, 2009 for future investment by ERS separate account managers, and the manager who currently holds 22,980 shares (approximate market value \$344,930) would be required to sell the security within the next twelve months. The Board acknowledged the action being taken. The Board also discussed a recently issued paper on the Principles of Responsible Investing and requested Staff adds a discussion on the subject to the workplan.

Preliminary FY09 Estimated & FY10 Requested Budgets – All Plans: Ms. Menke presented the annual budget for the three retirement plans. She noted the actual FY 08 expenses were 7.4% higher than the approved budgeted amounts due to higher than anticipated salary costs. FY 09 costs are projected to be slightly less, 0.6%, than the approved FY 09 budget amount primarily due to the lower costs for outside legal and due diligence than anticipated. Requested FY 10 expenses reflect a 42.1% increase due to additional recordkeeping costs associated with the Guaranteed Retirement Income Plan and the ERS. After discussion, Mr. Bader moved and Mr. Gillespie seconded, and the Board approved, with Mr. Beach abstaining, the following resolution:

0901-04 *Resolved, That the Board approves the Board-related expenses associated with the Employees' Retirement System, Retirement Savings Plan, Deferred Compensation Plan, and the Retiree Health Benefits Trust budgets for FY09 and FY10, to be updated for salary and benefit changes as supplied by the Office of Management and Budget.*

Retirement Savings Plan – Administrative Fee: Ms. Herman discussed the analysis of the Retirement Savings Plan's cash balance and expenses for FY 08 and projected levels in FY 09 and FY 10. Due to the uncertainty as to the number of participants in the RSP for FY10, and the addition of a recordkeeping fee based on the number of participants, Ms. Herman recommended that the Board approve an administrative fee that will cover the annual administrative costs of maintaining the RSP. Mr. Farber moved and Ms. Menke seconded and the Board unanimously approved the following resolution:

0901-05 *Resolved, That the Board approves an administrative fee that results in covering the administrative costs of the RSP for FY10.*

Compliance & Audit Committee Report: Mr. Bader discussed the results of the annual audit conducted by Clifton Gunderson, the Plans' auditors and the Comprehensive Annual Financial Report prepared by Staff. He noted questions that the Committee had raised in reference to disability retirement payments. The auditors provided a written response to the Committee noting they had reviewed the disability issue raised and determined it had no impact on the audit.

After discussion, Mr. Willie moved and Mr. Bader seconded and the Board unanimously approved the following resolution:

0901-06 *Resolved, That the Board notifies the Office of Legislative Affairs that the FY09 audit of the Employees' Retirement System include a review of the matter of disability payments and the impact on the FY09 audit, if necessary.*

Education Session – Real Assets – Energy: Mr. Stelzer provided an overview of the real assets sector highlighting the strategic case for investing in the asset class due to the low correlation with equities and fixed income and as an inflation hedge. Staff recommends the Board continue to expand its holdings in private real estate to include natural resources, infrastructure and agriculture. The Board received a presentation from Ms. Meghan Cuddihy from Merit Energy Company on the history of direct energy investing in oil and gas partnerships, investment strategies, operational efficiencies, and the current market environment.

Due Diligence & Continuing Education: Ms. Menke noted that there were two requests for travel which required approval. The Board approved the requests.

There being no further business of the Board, the open meeting session was adjourned at 12:15 p.m.

Respectfully submitted,

Joseph Adler, Secretary